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STATUS OF EAST GERMAN VULNERABILITY TO AN EMBARGO ON NATO COUNTRIES

CIA/RR EP 63-22

March 1963

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STATUS OF EAST GERMAN VULNERABILITY TO A WESTERN EMBARGO

In the light of economic developments during 1962, the main conclusions of previous CIA studies of East German vulnerability to a Western embargo (the latest being Section VI of CIA/RR EP 62-13, March 1962) are updated as follows:

A. General Extent of East German Vulnerability to an Embargo by NATO countries

1. During the last year there has been on balance no reduction in the vulnerability of the East German economy to a Western embargo. As before, the effects on East Germany of a general NATO embargo would fall chiefly on industries producing for investment and export. The impact would diminish rapidly after the first few months, although there would be some effect on the rate and structure of economic growth for a longer period. From the East German point of view, another undesirable effect would be the added strain on the state and party apparatus, resulting from the enormous administrative job involved in making the necessary readjustments. The intensity and duration of these effects would be less, of course, for a partial or selective embargo, such as one involving only certain items or one imposed on East Germany alone, but the nuisance value would still be considerable.

2. During the second half of 1961 the East Germans were able to reduce vulnerability to a Western embargo somewhat by drawing up detailed contingency plans to be implemented in the event of an embargo action by West Germany alone or by NATO as a whole. Because the regime has ceased planning for a Western embargo, however, East German preparedness for such an embargo presumably has declined. Preoccupation with the Berlin crisis has given way to renewed interest in long-term economic growth. The continuation and expansion of trade with the West is assumed in current planning and has a significant role to play in the new long-term plan, which runs until 1970. Although the contingency planning done in 1961 should have taught the East Germans something about what to do in case of an embargo, it is rather unlikely that the 1961 plans themselves would be of much use in 1963. Thus, if East Germany did not get some months' advance warning, the immediate impact of an embargo would be somewhat greater than it would have been a year ago.

3. There has been little improvement in the ability of East Germany to supply its own requirements from domestic output and trade within the Bloc. Despite a lag in the installation of new rolling mill capacity in 1962, the range of East German steel products improved somewhat. At the same time, however, East German steel requirements have been upgraded to satisfy the demand of machinery producers, who face new problems and stricter specifications from both East German and foreign

customers. In 1962 at least as large a part of East German imports from the West was of special high-grade steels as was true of 1961. The East German desire to introduce new technology also continues to stimulate imports of capital equipment from the West. Inasmuch as vulnerability must be measured in relation to the requirements of the present (or the future) rather than the past, it is doubtful whether East Germany has succeeded in reducing appreciably its dependence on imports. Similarly, the ability of other Bloc countries to supply East German requirements probably has not increased so rapidly as those countries' own requirements for steel and machinery and equipment.

4. The general state of the East German economy likewise has not changed much for better or worse during the last year. Economic developments in 1962 followed the pattern of 1961, except that the 1962 crops were considerably better than those in 1961, which were the worst in the postwar period. Realistically, the regime expects much the same growth pattern in 1963, with only slow improvement thereafter in rates of growth. To be sure, the hard winter of 1962-63 has affected industrial production and has reduced coal inventories, and the difficult spring which is likely to follow may well complicate agricultural problems. At the moment, therefore, the economy is operating under special strains. East German imports of food and coal from the NATO area, however, do not represent a significant area of vulnerability and supply problems in these areas should be eased in any case by this summer.

B. Changes in Specific Areas of Vulnerability

1. Importance of Interzonal Trade

Although the share of total NATO exports to East Germany provided by West Germany has been reduced somewhat (to 63% in 1961 and about the same level in 1962), interzonal trade has become an increasingly important source of East German imports of rolled steel. In value terms, West Germany supplied almost 83% of East German imports of steel from NATO countries in 1961 and perhaps even a larger share in 1962. Rolled steel is clearly the most important item exported by West Germany in interzonal trade, constituting 38% of the total value of deliveries to East Germany in 1961.

With the exception of rolled steel, however, East Germany evidently has increased somewhat its purchases from other NATO countries at the expense of the West German market. This shift is particularly evident in East German imports of machinery and equipment; West Germany supplied 72% of NATO shipments in 1961 as compared with 87% in the preceding year. West Germany also is supplying a smaller portion of the chemicals, crude materials and fuels, and foodstuffs imported by East Germany from the NATO area than was the case in earlier years.

The extent to which East Germany can shift its Western trade away from the West German market continues to be strictly limited, however, by its inability to provide adequate quantities of goods saleable in other West European markets. Brown coal and petroleum, for which there is only a very limited market outside of West Germany, continues to constitute over 40% of East German exports in interzonal trade.

2. Rolled steel and metallurgical equipment

During 1962, East German dependence on imports of steel from NATO countries changed very little from 1961. Although preliminary data indicate a slight decline in the share which NATO contributed to total East German supplies of rolled steel, the volume probably approached the level of 1961, when, according to revised estimates, NATO deliveries constituted 9% of the apparent supply and totalled 400,000 tons. Of this amount, about 300,000 tons originated in West Germany. As in 1961, East German steel imports in interzonal trade ran at a low level through the spring and summer of 1962, but heavy purchases during the last quarter brought the level of West German shipments of steel products to approximately the high level of 1961. Imports from the rest of the Free World probably dropped somewhat as a result of the discontinuance of small imports of steel from the United States, Canada, and Japan as well as an apparent decline in imports from France and Austria during 1962. Analysis of the available data on the composition of East German imports of steel from the NATO area indicates that high-quality steel products formed the bulk of such shipments during 1962.

The duration of East Germany's dependence on NATO countries for high-quality steel products is tied largely to the speed with which new domestic rolling and other finishing facilities are installed. There is evidence that this program lost momentum during 1962 as some nearly concluded contracts with West German equipment firms were cancelled and renegotiated with firms in France and possibly in the United Kingdom. A few new facilities capable of producing the products traditionally imported from the NATO area were reported to be nearing the final stages of construction at the end of 1962 and current reports indicate that substantial progress in the priority East German program to install new equipment may well be expected during 1963. Any large scale shift away from NATO suppliers of quality steel products, however, is unlikely in 1963.

West Germany will continue to be the main source of steel imports from the Free World. The East Germans are reportedly having some success in negotiating a 1963 agreement to procure from the United Kingdom substantial amounts of the quality steel products normally obtained from West Germany. In past years, however, British shipments of steel to East Germany have not exceeded 30,000 tons annually, nor more than about 10% of the level of West German deliveries. Although the East Germans have pursued the current negotiations with the United Kingdom somewhat more vigorously than heretofore, it is unlikely that a substantial diversion of steel imports from West Germany will result when the negotiations are translated into trade contracts. After an apparent failure to obtain long-term credits from the United Kingdom to finance increased imports of steel, final contracts now depend on British agreement to accept East German commodities in payment.

3. Coal and coke

Despite a general worsening in the coal supply situation in the Bloc resulting from a combination of production lags and unusually severe weather conditions, the impact of a NATO embargo on shipments of these products to East Germany alone would not be serious. The Bloc already supplies by far the largest portion of East Germany's coal imports and, in the event of an embargo, could fill its remaining requirements either from domestic production or through re-export of supplies obtained from the West.

The NATO area no longer represents an important source of East German imports of coking coal. Although East German requirements for imports of premium-quality coking coal have increased, direct imports from Free World sources of coking coal have dropped significantly in recent years. On the other hand, imports of Western coking coal by other European Satellites have increased markedly as a result of production lags in Czechoslovakia, normally the only Bloc country with an exportable surplus of premium quality coking coal of low-sulfur content. Inasmuch as these countries could expand further their purchases in the West either for diversion to East Germany or to permit increased shipments of domestically produced supplies to East Germany, a NATO embargo on shipments of coking coal to East Germany alone would be ineffective.

East German imports of coke from the Free World (i.e. West Germany) also have decreased, to 81,000 tons out of a total of 2.84 million tons imported in 1961, and preliminary data indicate a further drop in 1962. Moreover, if necessary, the USSR probably could increase the level of its current supplies to East Germany.

In regard to hard coal for fuel purposes, the severity of the past winter has caused a considerable depletion of reserve stocks as well as the temporary cessation of exports by Poland, the chief supplier of hard coal in intra-Bloc trade. The supply situation should be greatly eased during the summer months ahead but the ability of East Germany, and the other European Satellites dependent upon imports, to rebuild adequate reserves from Bloc sources will be markedly influenced by the success with which Poland and Czechoslovakia can fulfill export obligations while replenishing their own depleted stocks.

4. Foodstuffs

Imports of food and agricultural products, which normally amount to more than one-quarter of the total value of East German imports, were even larger in 1962. Meat imports, in particular, were increased to offset in part the decline in domestic meat production resulting from the extremely poor harvest of 1961. The additional imports came chiefly from the West, and in considerable part from NATO countries (West Germany, Denmark, the Netherlands and France). The bulk of East German food imports comes from Soviet Bloc sources, however, and in the event of a NATO embargo, other Free World countries (such as Sweden and Argentina) could easily supply any additional East German requirements. If necessary, the nutritional requirements of the population could be met and meat consumption probably not greatly reduced even in the event of a total cessation of imports of foodstuffs from the Free World.

Table 1

West German Exports as a Share of Total NATO Exports to East Germany, by Commodity Group a/

1958-62

Commodity Group	1958 Millions US$ NATO	1958 Millions US$ WG	1958 WG as a % of Total NATO	1959 Millions US$ NATO	1959 Millions US$ WG	1959 WG as a % of Total NATO	1960 Millions US$ NATO	1960 Millions US$ WG	1960 WG as a % of Total NATO	1961 Millions US$ NATO	1961 Millions US$ WG	1961 WG as a % of Total NATO	1962 b/ Million US$ WG
Total Exports	279.8	190.6	68.1	344.4	256.8	74.6	345.1	228.5	66.2	342.6	216.7	63.3	213.5
Food, Beverages and Tobacco, Fats and Oils	79.1	31.5	39.8	68.1	28.0	41.1	61.6	25.6	41.5	60.2	15.7	26.0	39.0
Crude Materials, Inedible Materials and Fuels	32.4	21.8	67.5	52.9	40.2	75.9	30.1	17.8	58.9	33.2	16.8	50.6	18.5
Chemicals	26.7	21.8	81.7	35.2	29.1	82.7	37.1	28.9	77.9	34.3	26.0	75.7	23.5
Machinery and Transportation Equipment	43.3	36.5	84.2	49.7	44.2	89.0	57.4	50.2	87.4	58.2	41.8	71.9	27.0
Other Manufactured Goods	95.2	76.3	80.2	136.0	113.9	83.7	145.1	101.1	69.7	149.3	113.6	76.1	110.5
of which: Iron and Steel	61.8	54.5	88.2	88.4	77.1	87.2	89.2	63.1	70.7	98.4	81.4	82.8	80.0
Miscellaneous	3.1	2.6	84.8	2.6	1.4	56.2	13.7	4.9	35.5	7.5	2.9	38.1	3.0

a. Including re-exports. Exports are f.o.b. except those from the US, which are f.a.s.
b. Commodity groupings are based on monthly data which are less detailed than those contained the final annual report still to be published.

Table 2

West German and NATO Exports to East Germany, by Commodity Groups a/

1961

Thousand Current US $

Area of Origin	Total	Food, Beverages and Tobacco and Fats and Oils	Crude Materials, Inedible Materials, and Fuels	Chemicals	Machinery and Transportation Equipment	Other Manufactured Goods: Total	Other Manufactured Goods: Of Which: Iron and Steel	Miscellaneous
Total Free World	513,202	95,475	72,954	40,306	70,483	201,446	126,615	32,538
Total NATO	342,561	60,162	33,202	34,259	58,157	149,292	98,363	7,489
West Germany (including West Berlin)	216,720	15,672	16,784	25,950	41,821	113,641	81,444	2,852
Other NATO countries	125,841	44,490	16,418	8,309	16,336	35,651	16,919	4,637
Belgium-Luxembourg	11,979	585	2,733	1,471	2,247	4,643	3,310	300
Denmark	14,844	9,755	2,720	413	907	1,049	373	0
France	21,563	9,793	883	854	6,360	3,666	2,003	7
Greece	6,549	5,647	631	0	0	238	0	33
Iceland	983	968	0	0	0	0	0	15
Italy	10,796	2,496	677	694	1,564	5,261	1,239	104
Netherlands	16,095	2,610	2,553	1,621	2,069	5,487	2,782	1,755
Norway	6,050	3,759	880	439	37	926	850	9
Portugal	404	0	391	0	0	12	0	1
Turkey	4,708	4,677	0	0	0	0	0	31
UK	27,438	228	4,890	2,737	3,151	14,176	6,300	2,356
US	2,775	2,581	26	80	0	62	62	26
Canada	1,557	1,391	34	0	1	131	0	0

a/ Including reexports. Exports are f.o.b. except those from the US, which are f.a.s.

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Table 3

West German and NATO Imports from East Germany, by Commodity Groups a/

1961

Thousand Current US $

Area of Destination	Total	Food, Beverages and Tobacco and Fats and Oils	Crude Materials, Inedible Materials, and Fuels	Chemicals	Machinery and Transportation Equipment	Other Manufactured Goods: Total	Other Manufactured Goods: Of Which: Iron and Steel	Miscellaneous
Total Free World	546,929	50,516	134,219	76,810	97,394	156,113	19,514	31,877
Total NATO	346,521	37,445	118,931	38,082	42,529	104,017	8,854	5,517
West Germany (including West Berlin)	233,959	26,483	106,776	17,518	19,341	61,650	1,499	2,191
Other NATO countries	112,562	10,962	12,155	20,564	23,188	42,367	7,355	3,326
Belgium-Luxembourg	14,336	148	950	2,878	2,263	8,036	2,277	61
Denmark	15,936	69	2,964	3,268	2,324	7,308	900	3
France	8,442	1,386	1,292	991	3,463	1,218	0	92
Greece	2,703	47	0	272	570	789	0	1,025
Iceland	2,066	82	0	182	804	981	59	17
Italy	14,269	613	2,921	1,724	2,730	6,266	3,932	15
Netherlands	17,555	677	2,626	2,006	3,792	8,090	85	364
Norway	8,494	3,436	38	1,152	793	3,069	7	6
Portugal	336	10	0	7	201	94	0	24
Turkey	6,203	0	0	138	3,929	1,147	0	989
UK	18,742	4,481	996	7,846	1,521	3,364	95	534
US	2,529	0	368	94	674	1,226	0	167
Canada	951	13	0	6	124	779	0	29

a/ Imports are c.i.f. except those recived by Canada and the US, which are f.o.b.

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Table 4

West German and NATO Exports to East Germany, by Commodity Groups a/

1960

Thousand Current US $

Area of Origin	Total	Food, Beverages and Tobacco and Fats and Oils	Crude Materials, Inedible Materials, and Fuels	Chemicals	Machinery and Transportation Equipment	Other Manufactured Goods: Total	Other Manufactured Goods: Of Which: Iron and Steel	Miscellaneous
Total Free World	530,228	118,549	77,446	42,673	77,195	201,770	109,589	12,595
Total NATO	345,087	61,624	30,145	37,065	57,427	145,093	89,179	13,733
West Germany (including West Berlin)	228,459	25,603	17,761	28,882	50,211	101,132	63,075	4,870
Other NATO countries	116,628	36,021	12,384	8,183	7,216	43,961	26,104	8,863
Belgium-Luxembourg	13,078	1,093	1,340	1,108	687	8,119	6,590	731
Denmark	18,798	12,482	4,670	423	364	845	103	14
France	14,121	2,019	1,054	837	967	9,204	7,743	40
Greece	2,193	1,374	485	0	0	0	0	334
Iceland	2,636	2,624	0	0	0	0	0	12
Italy	6,840	994	367	864	395	3,880	1,029	340
Netherlands	15,476	4,891	2,094	1,499	1,369	3,580	1,660	2,043
Norway	8,424	5,054	765	476	76	2,029	1,484	24
Portugal	571	12	524	0	0	6	0	29
Turkey	6,204	4,131	108	20	0	0	0	1,945
UK	23,227	285	914	2,624	3,358	12,741	4,917	3,305
US	4,042	1,062	56	332	0	2,547	2,547	45
Canada	1,018	0	7	0	0	1,010	31	1

a/ Including reexports. Exports are f.o.b. except those from the US, which are f.a.s.

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Table 5

West German and NATO Imports from East Germany, by Commodity Groups a/

1960

Thousand Current US $

Area of Destination	Total	Food, Beverages and Tobacco and Fats and Oils	Crude Materials, Inedible Materials, and Fuels	Chemicals	Machinery and Transportation Equipment	Other Manufactured Goods: Total	Other Manufactured Goods: Of Which: Iron and Steel	Miscellaneous
Total Free World	548,916	63,875	145,427	75,656	88,386	152,191	13,714	23,381
Total NATO	380,755	54,154	130,547	39,049	41,596	99,953	9,770	15,456
West Germany (including West Berlin)	267,255	41,840	121,266	15,788	20,295	61,522	636	6,544
Other NATO countries	113,500	12,314	9,281	23,261	21,301	38,431	9,134	8,912
Belgium-Luxembourg	15,646	719	297	3,137	1,696	6,125	3,019	3,672
Denmark	14,472	192	2,788	3,430	1,729	6,312	240	21
France	7,069	812	1,404	1,409	2,527	903	0	14
Greece	1,631	330	0	126	261	258	0	656
Iceland	3,253	345	34	244	1,347	1,283	82	0
Italy	14,514	616	1,008	1,941	1,362	8,721	5,445	866
Netherlands	18,710	2,873	2,220	2,700	2,981	6,761	305	1,175
Norway	8,205	2,386	118	1,442	1,275	2,965	0	19
Portugal	488	15	0	18	292	122	0	41
Turkey	7,896	0	50	168	5,843	672	0	1,163
UK	17,562	4,021	1,022	8,441	977	2,196	43	905
US	3,153	0	338	203	869	1,378	0	365
Canada	901	5	2	2	142	735	0	15

a/ Imports are c.i.f. except those received by Canada and the US, which are f.o.b.

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